

City of Alexandria, Virginia

MEMORANDUM

DATE: MAY 2, 2018

TO: THE ALEXANDRIA HOUSING AFFORDABILITY ADVISORY COMMITTEE (AHAAC)

FROM: HELEN S. McILVAINE, DIRECTOR, OFFICE OF HOUSING

SUBJECT: CONSIDERATION OF REQUEST FROM AHDC TO MODIFY ITS FEBRUARY 2017 PLAN TO REFINANCE AND RENOVATE LACY COURT APARTMENTS

ISSUE: Modification of AHDC's 2017 plan to refinance and renovate Lacy Court Apartments to release its obligation to repay the City \$500,000 at completion of construction (Attachment 1).

RECOMMENDATION: That AHAAC recommend that City Council approve AHDC's request to be released from its offer to repay \$500,000 when the renovation of Lacy Court is completed. A grant of \$150,000 to be provided to AHDC to fund a pilot rental subsidy program from the Lacy Court loan partial repayment proceeds will be funded instead from the upcoming repayment of a City loan to Brent Place.

BACKGROUND: Lacy Court is one of three RPJ properties that the City transferred to AHDC, subject to existing City and private debt, in 2011. AHDC has successfully maintained and operated the property since then. In February 2017, City Council approved AHDC's plan to refinance and renovate Lacy Court. Actions taken by City Council specifically included: "(a) approve AHDC's plan to refinance and renovate Lacy Court Apartments utilizing competitive tax credits; (b) approve a partial release of \$4.9 million in debt and accrued interest secured by an existing City loan in exchange for the City receiving an equity position through a future right of first option; (c) approve repayment of \$500,000 by AHDC when the renovation is complete; (d) approve provision of a grant of \$150,000 from the City to AHDC to fund a pilot rental subsidy program to create deep affordability for five units; (e) approve a resolution designating the Lacy Court Apartments sites a Revitalization Area pursuant to Section 36-55.30:2A of the Virginia Code; and (f) authorize the City Manager to execute documents related to the tax credit application and the refinancing plan." (Attachment 2).

AHDC applied for, and was awarded tax credits in the March 2017 competitive funding round. In addition to securing a first trust lender and investor for the project, since receiving the tax credits, AHDC has completed applications for city building permits; relocated households from buildings that comprise the first of two phases of the renovation; refined the scope of the work; and collaborated with its planned general contractor to finalize project costs. In December, the general contractor submitted a final estimate that was significantly higher than the costs provided at the time of AHDC's tax credit

application (\$5.7 million versus \$4.3 million). It is noted that two work items totaling approximately \$150,000 were added to the scope subsequent to the tax credit application. While AHDC continued to work with the general contractor to value engineer project costs and to identify other efficiencies and savings, the organization ultimately it decided to rebid the general contract. Based on the prices received, a different general contractor was selected to proceed based on its cost estimate of \$5.3 million.

Besides rebidding the general contract, AHDC has taken other steps to close the now \$1 million increase in construction costs, including deferring the maximum amount of developer fee allowed by its investor; undertaking additional value engineering; and by negotiating more very low interest financing from VHDA through its REACH program.

Because the project margins are now very thin, AHDC has asked that it be relieved of the obligation to repay \$500,000 at the completion of the renovation, so that this amount, which the first trust lender and investor must underwrite as “hard debt” will not have to be additionally included in the amount financed during construction. This will fully close the gap, and enable AHDC to move forward with the project’s full financial closing and begin construction next month. In its modification request, AHDC has reiterated its desire to make some repayment to the City, if financially feasible when renovation is completed: “...we are currently carrying a 10% contingency on this project which results in approximately \$525,000. AHDC is committed to working with the City to find solutions on this project and commits to any funds not expended on development will be repaid to the City after a 50% deferred fee is received.”

DISCUSSION: Recent increases in construction costs have hit all building sectors, including affordable housing development. AHDC has worked to mitigate the \$1.4 million gap resulting from higher construction prices by rebidding the general contract, deferring the maximum amount of it developer fee, and by negotiating additional below market financing with VHDA. Releasing AHDC from its 2017 offer to repay the City \$500,000, as now requested, will fully close the gap and allow the project to proceed.

With regard to the \$150,000 rental subsidy grant (which will initially help existing residents remain at the property after renovation), staff propose that proceeds from Homes for America, Inc.’s (HFA) upcoming repayment of its 2009 City loan for improvements to Brent Place Apartments be used to fund the grant, with the balance of the proceeds received be reserved to fund other rental subsidy pilot programs at Gateway at King and Beauregard, Carpenter’s Shelter and St. James Plaza. HFA’s loan repayment of approximately \$350,000 was not anticipated but results from a refinancing of the property to enable its comprehensive rehabilitation. Even with the balance of the City loan repaid, Brent Place will continue to be affordable, subject to HFA’s non-profit mission of operating affordable housing, as well as ongoing deed restrictions negotiated pursuant to the City’s investment in 2009.

FISCAL IMPACT: New City investment will be limited to \$150,000 to be provided as a grant to AHDC for a rental subsidy program. All other 2017 refinancing terms approved by City Council remain in place, including the release of some City debt and accrued interest in exchange for a Right of First Option. \$3.8 million of existing debt will be secured.

ATTACHMENTS:

- (1) AHDC Request for Modification to 2017 Refinancing and Renovation Plan for Lacy Court, including Revised 40 Year Proforma
- (2) February 2017 City Council Staff Report and Attachments (excerpted)

STAFF:

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Tamara Jovovic, Housing Analyst, Office of Housing